

December 5, 2001

Mr. Andrew Stephens
Director of Steel Policy
Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

VIA ELECTRONIC MAIL

Re: Bearing Quality Steel Wire Rod and Bar
Trade Act of 1974, Section 203 Action

Dear Mr. Stephens:

Brenco, Inc. ("Brenco") hereby responds to the request filed with the Office of the U.S. Trade Representative to exclude certain specialty steel products from any safeguards remedy in the pending Section 203 action. *See Trade Policy Staff Committee; Public Comments on Potential Action Under Section 203 of the Trade Act of 1974 With Regard to Imports of Certain Steel*, 66 Fed. Reg. 54321 (Oct. 26, 2001).

Brenco strongly supports the exclusion request filed on behalf of the Japanese steel producers (Nippon Steel Corporation, NKK Corporation, Kawasaki Steel Corporation, Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd., Nisshin Steel Co., Ltd., Japan Iron & Steel Exporters' Association, and Suzuki Metal Industry, Ltd.) on hot-rolled, bearing quality steel wire rod and bar. In addition, the company supports all other exclusion requests filed with the USTR and the International Trade Commission ("ITC") on bearing quality steel bar.¹

BACKGROUND

Originally founded as Bronze Engineering Company in 1949, Brenco produced its first anti-friction tapered rolling bearing over fifty years ago. The company is a division of Amsted Industries and today employs a total of over 500 people at its headquarters in Petersburg,

¹ Sumitomo Corporation of America filed an exclusion request on October 17, 2001 with the International Trade Commission on the specific grade of bearing quality steel bar (8720M) required by Brenco.

Virginia and two other facilities in Little Rock, Arkansas, and Sparks, Nevada. Recent layoffs, due to the slowing U.S. economy, have reduced the company's workforce by over 15 percent in recent months.

Brenco is the leading U.S. supplier of bearings in the railroad industry with over 60 percent of the domestic market. Brenco's primary U.S. competitor is The Timken Company ("Timken"), and the company also faces significant competition from several foreign bearing producers. Although Brenco has traditionally focused on the U.S. market for its sales opportunities, the market for bearings in the North American railroad industry has matured and currently is in a state of decline. Brenco anticipates that any growth opportunities for sales will be increasingly in foreign markets.

Brenco uses a custom grade of hot-rolled steel bar (8720M) manufactured by Daido Steel Co., Ltd. of Japan to produce its bearings for the U.S. railroad industry.² Raw materials constitute approximately 40 percent of Brenco's finished bearing cost. Hence, the cost of steel bar has an enormous and direct impact on Brenco's profits due to the relative importance of the material in the production of its bearings.

SAFEGUARD ACTIONS WOULD SEVERELY DAMAGE BRENCO AND LEAD TO SIGNIFICANT FURTHER CUTS IN ITS WORKFORCE

Any import restrictions or increased duties on hot-rolled, bearing quality steel bar would be devastating to Brenco and its ability to manufacture bearings in the United States. The only supplier of steel bar of a quality and size that meets Brenco's specifications is Timken, who is also Brenco's largest competitor in the U.S. bearing market for railroad applications. Although Republic Steel is capable of producing the larger-sized bar needed by Brenco, the company was disqualified as a supplier due to the inferior quality of its steel bar product. (Republic also is currently in Chapter 11 bankruptcy proceedings.) Thus, if import quotas or increased duties were implemented on this product, the company would be at the mercy of its largest competitor for a significant portion of its raw material needs.

In addition to supply concerns, import restrictions on this product would drastically cut into Brenco's declining profits and jeopardize its competitive position in the domestic market. Any trade remedy placed on imports of bearing quality steel bar would significantly increase its cost to Brenco, thereby increasing the price of the finished bearings to its customers. In a competitive market with customers already pressing Brenco for price decreases, any price increase on steel bar would undermine Brenco's ability to compete with foreign bearing producers and maintain its U.S. market share.

² This special grade of steel is typically supplied as hot-rolled bar between 2.5 inches (63mm) and 5.5 inches (140mm) in diameter.

Safeguard actions would effectively shut out Brenco from foreign markets. With the U.S. market for bearings in the railroad industry in decline, the only alternative for Brenco to maintain profits and expand its business is to increase its overseas sales. With an increased cost for bearing quality steel bar and an uncertain supply, Brenco would be unable to compete with foreign bearing producers that have unfettered access to competitively-priced specialty steel bar.

Brenco's employees would bear the brunt of the U.S. government's imposition of trade remedies on this product. The company has already reduced its workforce by approximately 15 percent over the past few months, and any additional burden on the company's ability to compete in the market place would result in additional layoffs. In short, restrictive measures imposed on bearing quality steel bar would jeopardize the viability of an established U.S. company and the livelihood of its employees.

CONCLUSION

Brenco strongly supports all of the product exclusion requests filed in this Section 203 case covering hot-rolled, bearing quality steel rod and bar. If import quotas or higher duties are imposed on this product, Brenco would be unable to source sufficient quality steel bar at a competitive price for its bearing manufacturing operations in the United States. As a result, the company would be unable to compete effectively in either the U.S. or overseas markets for its specialized bearings, thereby requiring substantial employee layoffs at its U.S. facilities.

Thank you for the opportunity to present Brenco's views in this case. If you have any questions regarding the information provided in this letter or need additional information, please do not hesitate to contact me.

Sincerely yours,

Jim Drum
Director of Purchasing